HYMANS ROBERTSON

Climate market watch

April 2020

Articles this month:

COVID-19 and the impact on our climate

With COVID-19 dominating the news recently, it may be a surprise to see that there is an unexpected silver lining to the lockdown we are all currently experiencing. One recurring news theme over the past couple of weeks is around the indirect impact of the virus on emissions. Whilst cities and countries have locked themselves down to prevent the spread of COVID-19, carbon monoxide and CO2 emissions have both fallen sharply, particularly in the quarantined areas. However, it has been noted that governments will have to be careful in the coming months to ensure there isn't a surge in emissions once the pandemic fades. For instance, following the financial crash in 2008, stimulus spending of governments resulted in additional usage of fossil fuels.

What does this mean for me?

There are the benefits to the environment brought about by lower emissions, with planes being grounded and working from home becoming a reality for many. As you'd expect, this has led to a reduction in fuel being purchased, amongst other things. It is important to note that ESG funds have outperformed the market since the recent COVID-19 related sell-off began, due to their low exposure to the energy and oil industries and the above is likely a factor in this performance.

Our view:

If people hadn't been taking ESG requirements seriously prior to now, we believe that this will definitely change. Whilst we don't expect the current lockdown will cause the market to shift as far as we would like it to when it comes to emissions, society may be about to take one of the biggest steps to a greener economy that we have seen thus far.

Further reading suggestions: Our own Investment Consultant Callum Stewart has written a fantastic blog piece[1] expanding on the above. It may also be worth reading about how the plunge in oil price has caused a number of renewable energy opportunities[2].

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[1] < https://www.hymans.co.uk/insights/blogs/blog/protecting-our-people-and-our-planet/>
[2] <https://esgclarity.com/oil-price-plunge-throws-up-renewable-energy-opportunities/>

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Banking on climate change: fossil fuel finance report 2020[3]

Mid-March saw the 2020 Fossil Fuel Finance Report published by Oil Change International, Rainforest Action Network, BankTrack, Indigenous Environmental Network, Reclaim Finance, & Sierra Club. The report itself is thoroughly detailed, spanning over 100 pages and taking an in-depth look at the roles of a number of private-sector banks in financing the fossil fuel industry, despite the industry coming under more criticism than ever before. The report not only contains a point-based assessment of bank policies and commitments such that they can be ranked, league table-style from best to worst in this area, but also includes a number of case studies on the impact of financing the fossil fuel industry and short essays on key topics that are well worth a read.

What does this mean for me?

A wave of activism over recent times has increasingly brought financial companies into the spotlight for how they are committing to and meeting societal obligations to have a positive impact on the environment. Whilst most banks have policy statements laying out their approach to reduce spending on fossil fuels and, more widely, on how they plan to positively impact the environment. For those of you who are concerned that their funds may sit with companies that are simply 'greenwashing' and not taking appropriate action, this report will give you the lie of the land and much more on top.

Our view:

The report is a great reminder of how far we have yet to go. It is daunting to see the amount that is channelled to the fossil fuel industry by banks and serves as a good reminder that, whilst it may feel like an impossible task, that we as individuals, as trustees, as advisors and so on can all make a difference simply by considering in a bit more detail about where we put our money – and if you are wondering how to tackle that challenge, this report is a good place to start.

PCRIG non-statutory guidance on climate risk reporting – consultation[4]

Following the Green Finance Strategy announcement in July 2019, the Department of Work and Pensions, The Pensions Regulator and other government departments set up the Pensions Climate Risk Industry Group. The aim of the group is to develop industry-wide guidance on climate-related risks for pension scheme trustees. PCRIG has now published a public consultation seeking views on their guidance for occupational pension schemes on assessing, managing and reporting climate-related risks in line with the TCFD recommendations.

What does this mean for me?

The guidance published by PCRIG is aimed at trustees of private sector schemes but will be of interest to others, including public sector schemes like the LGPS. There have been suggested amendments to the Pension Schemes Bill that will provide a regulation making power for the Government to require pension schemes to publish climate change related risk information, if passed.

Our view:

Pension scheme trustees should be reviewing the guidance published by PCRIG. If the amendment to the Pension Schemes Bill passes, having already considered the current non-statutory guidance will ensure that trustees are aware of possible requirements and hopefully will be well prepared by any statutory requirements that are introduced – which, in our opinion, is a case of when rather than if.

Further reading suggestions: Your first port of call, if you haven't yet read it, is the guidance[5] itself. It is also worth noting that TPR has released a statement[6] on the consultation. Finally, it may be worth reading up on the calls from the House of Lords[7] and organisations such as PLSA[8] for pensions to do more on climate change, particularly if you aren't yet convinced that there will be further requirements for schemes regarding climate change.

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3 <http://priceofoil.org/2020/03/18/banking-on-climate-change-report-card-2020/>

4 <https://getinvolved.dwp.gov.uk/05-policy-group/aligning-your-pension-scheme-with-the-tcfd-rec/ >

5 <https://www.gov.uk/government/consultations/aligning-your-pension-scheme-with-the-tcfd-recommendations>

6 <https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2020-press-releases/tpr-statement-on-climate-risk-guide-consultation>

7 <https://www.professionalpensions.com/news/4011505/house-lords-calls-pensions-align-paris-climate-agreement>

8 <https://www.theactuary.com/news/2020/plsa-calls-on-pensions-to-do-more-on-climate-change/>

Asset managers ranked on ESG[9]

ShareAction is an organisation that is campaigning for the global investment industry to take responsibility for the impact it is having on people and the planet. Their most recently published report looks at 75 of the world's largest asset managers, ranking them on how they manage their ESG risks and opportunities. Within their report they also set out guidelines on how asset managers could improve their credentials within the ever-growing area of ESG.

What does this mean for me?

ShareAction also makes some suggestions in their report for how investors could make a difference and influence the actions of their asset managers. Some of these actions include strengthening due diligence within the selection process for a new asset manager, requiring regular reporting on responsible investment issues and ending relationships with asset managers that do not meet your ESG expectations.

Our view:

Unfortunately, as you may expect, the majority of the 75 asset managers within the report and the industry as a whole have some way to go in improving their approach responsible investment. The report sets out a number of actions for both asset managers and asset owners to take; these are a great starting point for us to influence the market, no matter how much or how little you have invested. We should all be looking at doing as much as we can in this ongoing battle to shift the market into a sustainable future.

Further reading suggestions: ShareAction have produced a number of interesting reports on related topics. For instance, their report[10] from last year on how 57 of the world's largest asset managers voted on 65 shareholder resolutions linked to climate change is well worth a read if you found the above interesting.

EU unveils their long-awaited climate law

During March, the European Commission unveiled their long-awaited Climate Law, which is a key part of their intention for Europe to reach climate neutrality by 2050. The law proposes a legally binding target of net zero greenhouse gas emissions by 2050. It also sets a direction of travel for all subsequent EU policy and includes measures to keep track of progress and adjust the EU's actions accordingly.

What does this mean for me?

Whilst it could be assumed that, due to Brexit, we could feign ignorance of the plans of the EU, the UK has previously played a key part in the EU's climate action in the past. We can hopefully expect this to continue, despite Brexit, particularly given that the UK has committed to the 2050 emissions-neutrality goal. Therefore it would likely be remiss to assume that there won't be similar action in Britain.

Our view:

This is a good step forward by the EU, but the law does very little to address the actions required in the short term. Net neutrality is an admirable goal and it is better that we achieve it late than not achieving it at all but there will be stronger action required to ensure that the goal 2050, given how far away it is, doesn't result in a lax attitude by all countries involved.

Further reading suggestions: It may also be worth reading further into the 26th UN Climate Change Conference of the Parties (COP26), of which the objective is for every professional financial decision to take climate change into account. It was set to be held in Glasgow in November 2020 but has been postponed due to Coronavirus and is now expected to take place in 2021.

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9 <https://shareaction.org/research-resources/voting-matters/>

10 <https://shareaction.org/research-resources/point-of-no-returns/ >

11 <https://ec.europa.eu/clima/policies/eu-climate-action/law_en>